

Approved

EXETER COLLEGE FURTHER EDUCATION CORPORATION

AUDIT COMMITTEE

Minutes of the meeting held on Wednesday 8th March 2017 in the Board, Hele Road, Exeter College

Present

Chris Hoar	Chair
David Batho	
John Coombs	
Elaine Hobson	
Dave Underwood	

In Attendance

<i>All bar item 5.1 & 10</i>	John Laramy	Principal
<i>All bar item 5.1</i>	Kate Barczok	College Accountant
<i>All bar item 5.1</i>	Steve Campion	Executive Director Finance & Resources
<i>All bar items 4.1,8,9 & 10</i>	Heather Ancient	PwC
	Barbara Sweeney	Clerk to the Corporation

Apologies

Emily Steed	PwC
-------------	-----

1. **Welcome Apologies and Declarations of Interest** **Action**

The Chair welcomed colleagues to the meeting. He particularly welcomed Kate Barczok who was attending for the first time in her capacity as College Accountant.

Apologies were received.

There were no declarations of interest
2. **Minutes**
 - 2.1 The minutes of meeting held on 30th November 2016, as circulated, were agreed and signed by the Chair.
 - 2.2 The confidential minutes of meeting held on 30th November 2016, as circulated, were agreed and signed by the Chair.
3. **Matters arising**
 - 3.1 The report advising what Board actions had been taken on the recommendation of this Committee at the Board meeting on 9th December 2016 was received and noted.
4. **Audit Project Reports**

Approved

4.1 Skills Funding Audit Subcontractor Review

The report and Subcontractor Certificate were received and Steve Champion, Vice Principal, Finance and Business Operations reminded the Committee that the Skills Funding Letter issued in February 2015 required the Skills Funding Agency (SFA) to consider further the risks that subcontracting presented and how they could be mitigated.

In response, the SFA funding agreements contained a clause about an annual subcontracting assurance requirement requiring lead providers who subcontract more than £100,000 of their funded provision in 2015/16 and subsequent years to obtain a report from an external auditor on the arrangements in place to manage and control their subcontractors and to supply the SFA with a certificate confirming the provider's arrangements as satisfactory. Following competitive tendering the contract for the review had been awarded to Bishop Fleming.

The College had just four subcontractors undertaking provision in 2016/17, covering 16 – 18 and Adult Apprenticeships. Based on the declared volumes on the Subcontractors Declaration submitted in November 2016 the College had contracted to deliver £331,250 worth of provision via subcontractors. This was small scale compared to the sector.

The review found that controls in place were robust in the main, but with two low risk recommendations relating to the checks completed on subcontractor providers. During Selection and Procurement the College should carry out due diligence checks on existing as well as new providers, with annual reviews to mitigate any changes in financial standing, ownership or increased reputational risk. Agreed actions included introduction of an annual return for all Subcontractors from June 2017 to cover changes in company directors, a deterioration in the financial stability of the provider and review increasing reputational or regulatory risks identified in adverse publicity or from changes in the sector in which the providers operated.

The second finding related to credit checks, which although carried out and copies of financial statements obtained, there was no evidence that the checks were retained. The requirement to undertake credit checks was a new funding rule introduced in the 15/16 academic year and evidence of these credit checks and annual checks documented were retained.

Finally Steve alerted the Committee to the fact that although the certificate had been issued by the SFA, revised guidance was still awaited, which might include further conditions. However by the end of the meeting he confirmed that he had received notification of receipt of guidance and that no further information was required.

The Committee agreed to

a) Note the report

Approved

b) Recommend the Assurance Report to the Board for noting at its meeting on 5th May 2017

4.2 Operational Resilience

The report was received. A review of two specific areas of the College's approach to Operational Resilience were reviewed as part of the internal audit plan for 2016/17 as approved by the Audit Committee. The review was to adapt to changing circumstances in a dynamic world. There was no overall conclusion or risk rating as the audit was not a standard internal review and there was no testing to assess the operating effectiveness of the controls.

The PwC Operational Resilience Benchmark tool was used to create an integrated picture of the health of Exeter College's organisational resilience functions through Governance and Risk Management. Key gaps between desired and actual capability were identified, with a summary of observations and recommendations. IT resilience, information and cyber security and crisis management processes were not reviewed, having been included in the scope of the internal audit reviews completed in the last two years.

Both Governance and Risk Management were identified as being well established, with processes meeting the desired best practice in four of the six measures in Governance and three of the five for Risk Management.

Whilst the two findings relating to Governance might be considered operational, they were included in the Governance section because they fell under its remit in the PwC assessment tool. An opportunity to improve the College's operational resilience was identified by improving staff awareness of their responsibilities and providing training to improve the skills and experience of key staff. Whilst a de-brief was performed following an incident, the process could be strengthened through regular review of the College's overall approach to resilience and planning processes. The recommendation was to provide training to key staff and governors to raise awareness of resilience and to perform regular incident rehearsals and record and share any learning points with key staff.

Turning to Risk Management, the key finding was the lack of robust process for cascading risks down through the College or for sharing risks between faculties, although there was periodic use of a process, sending out email alerts to raise awareness of an external issue. It was confirmed that although there were effective processes for cascading risks up the organisation, with themes effectively identified, there was an opportunity to improve downward communication and that there was a tendency for optimism bias. Increased pessimism would benefit the process.

The Committee considered management of risk at length, including other examples of good practice. Although the ultimate responsibility of the

Approved

Board, the delegation to the Audit Committee assumed that the Committee received adequate assurance. One example of good practice was for Audit Committees to undertake deep dives into specific risks, with subsequent feedback to the Board, particularly in areas where there was no alternative assurance, either through finance reviews or assurance reports scrutinised by the other functional committees. The Committee noted that the register included risks where there were no effective mitigations to the impact of the external environment. A review of the Committee and its terms of reference would support enhanced assurance, and the annual review of terms of reference by the Search and Governance Committee would provide such a platform.

Whilst there were no conclusions from the Operational Resilience Review it was agreed that the benchmarking exercise demonstrated that the College was in a good position. The Committee commended the valuable discussion on management of risks.

The Committee noted the report.

4.3 Audit Monitoring Update

The report was tabled and Heather confirmed that the Internal Audit Monitoring Paper was a summary of the projects agreed in the Audit Plan and updated the Committee on the progress against them. The review into the Foundation Studies Department was live and other reviews were scheduled and would be completed and received at the June 2017 Committee meeting.

Clarification was sought as to why the Operational Resilience Review was not delivered within the agreed times and would be discussed outside the meeting.

SC/PwC

The Committee noted the Report.

5. **Special Items**

College Managers withdrew for Item 5.1

5.1 Governors' Only Item with Internal Auditors

This item was dealt with as a confidential item in accordance with the College's confidentiality policy and recorded in the confidential minutes.

6. **Internal Audit Action Plan**

6.1 Progress Update

The report was received. Steve updated the Committee on progress towards outstanding actions. The two from the 2016/17 Subcontractor review had been considered earlier at this meeting.

There had been good progress towards the two outstanding recommendations from 2015/16 which related to the Business Continuity

Approved

review. The membership of the Business Continuity Group had been widened to include the Safety, Health and Environment Manager and Faculty involvement from the CCI. Business impact assessment were being developed, looking at key systems and response times and the developing policy was pulling together plans into a single document, in electronic form, with hard copy located in key locations. This was work in progress and under review by the Business Continuity Group.

A scenario rehearsal plan was scheduled, with a member of the Committee involved in the review.

The Committee noted the real momentum toward mitigating the risk and recorded its thanks to the Safety, Health and Environment Manager for his contribution.

The Committee agreed to

a) Note the report.

b) Remove completed actions

7. **Risk Management**

7.1 Risk Management Update

The report, including the updated risk register, was received. Steve confirmed that the risk register was reviewed termly by the Senior Leadership Team, and had last been reviewed in February 2017. The format of register had been changed to show the rag rating, formerly shown on the heat map, changes to ratings and reflected the new priorities in the updated Strategic Plan.

Steve highlighted the key changes, going through the register in detail and providing justification for each change. The Committee challenged the rating for IT security and requested an update at the next meeting and an opportunity for further discussion.

BHS

The Committee also received a report from PwC on risks within the sector, which served as a useful indicator of unknown unknowns. Governors considered a graph showing sector risks and requested that at the next meeting they receive a version with the College risks mapped onto the sector risks to benchmark the College's current position.

SC/BHS

The Committee agreed to

Recommended the Risk Register to the Board

Vote: unanimous

8. **Review of Performance of External Auditors 2015/16**

This item was dealt with as a confidential item in accordance with the

Approved

College's confidentiality policy and recorded in the confidential minutes.

9. **Recommendation of Internal and External Auditors 2017- 2022**
The update was received and the Chair confirmed that, following presentations from, and interviews with the shortlisted firms tendering for appointment as Internal and External Auditors, the panel unanimously recommended to the Audit Committee that, subject to references, the following recommendations be made to the Board at its meeting on 5th May 2017

a) That TIAA be appointed as Internal Auditors for five years from 1st August 2017 to 31st July 2022, subject to annual review.

b) That Bishop Fleming be appointed as External Auditors for five years from 1st August 2017 to 31st July 2022, subject to annual review.

Vote unanimous

10. **Reporting and future planning**

10.1 Items to take to Board

The Committee reviewed the agenda and agreed on the items to be reported to the Board at its next meeting on 14th June 2017.

10.2 Items for next meeting

The Committee agreed on items to be included in the agenda for the next meeting. In addition to those on the circulated cycle of business, the agenda would include an update on IT security and an item on mapping of College risks with sector risks.

11. **Date of Next Meeting**

Wednesday 14th June 2017